RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

Since 1958

PTI CHART ON PAGE 3

Post Office Box 1759, La Jolla, California 92038

26 Letters Per Year • $250 annually

July 30, 1997 **LETTER 1231**

THE MARKET: Last week a friend suggested, "Richard, you ought to delve into your memory and see if there's a comparison between today's bull market and the bull market of the '50s (between 1949 and 1966 the Dow rose 518%). I answered, "There is a striking difference. I well remember the rise from the 1957 low to the 1962 high. People HATED that rise. During late-1957 and 1958 the US was in recession, and everyone was cursing the 'crazy' rising stock market. Analysts, frightened by the recession, were screaming that 'the advancing stock market has taken leave of its senses.' The public and most investors hated the rise of the '50s for two reasons: they weren't in it and they didn't understand it. The public was on the sidelines and many speculators, believing the market was 'wrong,' were heavily short."

Today's bull market is very different. The public is **heavily in** this bull market. Moreover, people can understand this rise because the country is prosperous, and because bullish news continues to flood the newspapers and TV at all hours of the day and night. In the 1950s there were no mutual funds to speak of, and there was no cult of equities. The bull market of the '50s advanced relentlessly as it ignored the recession and discounted the better times to come.

In the last Letter I published a chart showing that since 1992 there have been four trend-advances for this market, each one steeper than the preceding. The current (fourth) trendline rise is the steepest, with the Dow having risen almost vertically.

I look at the situation this way. During the late stages of a primary bear market people call their brokers and say, "Harry, don't bother me with prices, just sell me out. I want to be in cash, and I never want to hear about stocks again."

During 1997 investors moved into the **reverse mode.** I think regardless of yields, values, absence of corrections, people have been rushing money to their chosen mutual funds believing that they've discovered the path to ultimate riches and a prosperous retirement. Furthermore, an increasing number of people are chagrined in that they have missed the bull market, and now they're belatedly joining the fun. After all, how do you feel when your neighbor is telling you how fabulously well he is doing with his Nirvana Mutual Fund -- and all you've been doing is putting 35 bucks a week into some boring old savings account? Result -- the public has continued to rush into this market en masse.

Discounting: The function of the stock market is to discount, to look AHEAD. Every bull market in history ultimately reaches the point where it has discounted the VERY BEST that can be seen ahead. When that point is reached -- there's nowhere to go but down.

The question one must ask with the Dow yielding an all-time low of 1.63% is, "Has this market already discounted the 'very best that can be seen ahead?'" Or "how much rosier can the future be and how much higher can this bull market climb?" The unsatisfactory answer -- there's absolutely no way of knowing.

In the past, valuation levels were of great help in estimating when a bull market had "discounted the best that lay ahead." This time, however, the old time-tested valuation measurements are "out-the-window." This time the stock market has advanced far beyond all the traditional danger levels.

July 18 DJIA 7890.46; PTI 4982; A-D Ratio +8.28
July 25 DJIA 8113.44; PTI 4993; A-D Ratio +8.51
Dow Yield: 1.60%; Dow Price/Earnings: 21.8
Dow 144-day MA: 7165; Dow 34-day MA: 7805
Dow Times Book Value: 5.73; PTI 89-day MA: 4885
Percentage of Undervalued Blue-chips: 3%
Gold 144-day MA: 354

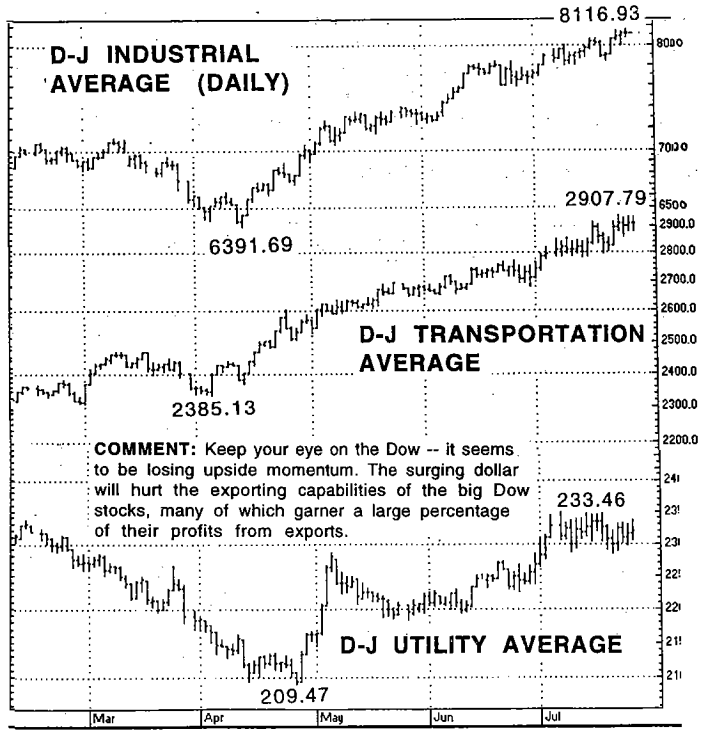
Every bull market in history produces its own brand of surprises. What "works" in one bull market doesn't work in the next. If calling the bottom of a bear market or the top of a bull market was automatic or easy, every Wall Street analyst would be rich. But I'll tell you a secret -- they aren't.

The surprise, the uniqueness of this bull market, is that it has broken all the rules -- the rules of value, the rules of duration and extent, the rules of corrections.

Investors tend to be conditioned by **their most recent experience.** Every investor has lived through or at least knows about the stock market's most recent "disaster," October 19, 1987, the day when the Dow dropped 509 points in a single session. Consequently, that's the ever-present fear of today's bulls, another dreaded one-day crash.

Dramatic events seldom happen in the stock market twice in succession. For this reason, I believe the next bear market will not be signaled by a crash; rather I believe it will be an erosion affair, the market sinking day after day; week after week, all the while keeping people hoping that each down-day will be the last down-day.

Dow: I wrote in the last Letter that the Dow has been the "engine" of this bull market. The Dow is the KEY. In my opinion, as long as the Dow continues to rise, the bull market will remain intact. When the Dow finally keels over, the bull market will die.


8116.93
D-J INDUSTRIAL AVERAGE (DAILY)
2907.79
6391.69
D-J TRANSPORTATION AVERAGE
2385.13
COMMENT: Keep your eye on the Dow -- it seems to be losing upside momentum. The surging dollar will hurt the exporting capabilities of the big Dow stocks, many of which garner a large percentage of their profits from exports.
233.46
D-J UTILITY AVERAGE
209.47
Mar
Apr
May
Jun
Jul

PTI: Millions of words are written every day regarding the stock market. Nobody can even begin to absorb or understand all these opinions, analyses and concepts. But as far as the stock market is concerned, all those millions of words boil down to only two words -- SUPPLY and DEMAND.

In my humble opinion, the best measure of supply and demand is my Primary Trend Index (PTI). This indicator has "worked" extremely well ever since I "invented" it back in 1971. As long as demand is in the driver's seat the PTI will reflect that demand by remaining in a bull trend. When supply finally overcomes demand, we'll see it in a declining trend in the PTI.

Referring to the chart of page 3, it may be notable that on July 22 the PTI did not rise to a new high with the Dow and almost every other stock average. A million words a day, ten thousand opinions a day -- all reduced to a single line which I call the PTI.

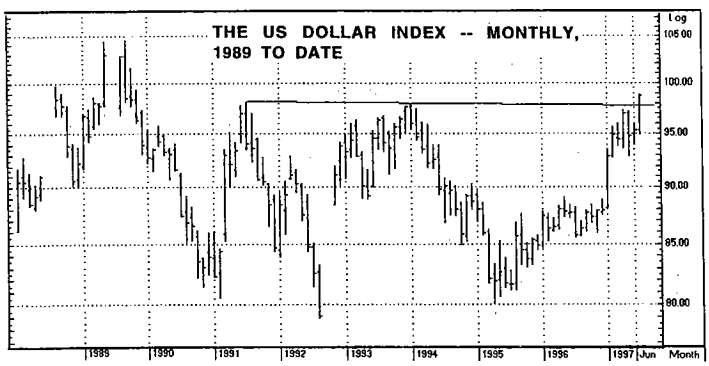
THE PICTURE: Opinions regarding the economy continue to differ widely. Many top economists believe that this cycle will evolve into a classical situation with business expanding broadly, wages rising, inflation increasing and interest rates moving towards the 8% level on the long bond.

Others are equally convinced that the deflationary tendencies now present will accelerate, and that weak gold, rising bond markets and a powerful dollar are pointing to the first dramatic and destructive deflationary forces seen since the bad old days of the 1930s.

Bulls are convinced that these are the best of times, and that the best of times will extend as far out as the eye can see. President Clinton, in his arrogance and ignorance, in so many words told the other nations at the recent G-7 meeting that the US is now the undisputed global leader and that US prosperity is a modern wonder.

Bears, on the other hand, state that US prosperity is built on borrowing, built on the rest of the world's willingness to sell its goods and merchandise to the US in return for paper dollars, dollars that the US can manufacture at will.

THE POWERFUL DOLLAR: It could be the chink in the bull market's armor. The dollar is a hot item, and it's been climbing against almost every currency except the British pound. This monthly chart shows the **Dollar Index in a massive upside breakout**, rallying above both the 1991 and 1993 highs -- and surging to its highest level since 1989. This new high in the dollar is a strong negative for the Dow stocks, since many of them derive a goodly portion of their profits from exports (and, of course, a strong dollar means that US products cost more overseas). By the same token, the strong dollar will impact negatively on the US trade balance.



Note: With an increasing number of European nations lining up to join the single currency Euro, it now looks as though the Euro will become fact. If you were holding D-marks, what would you do now with the Euro in sight? You'd sell and switch to the dollar, the pound or even the yen. Look for a continued strong dollar as currency holders move to dollars to protect themselves against a potentially weak Euro.

Swap: In order to cover or conceal their deficits, some nations have sold their gold reserves for dollars. In fact, over the two years 1995 and 1996 foreigners bought 511.1 billion worth of dollars. This phenomenon, state the bears, is the chink in the bull market's armor. How much longer, they ask, will foreigners be willing to swap their goods and merchandise for US paper, and in so doing, keep US prosperity intact?

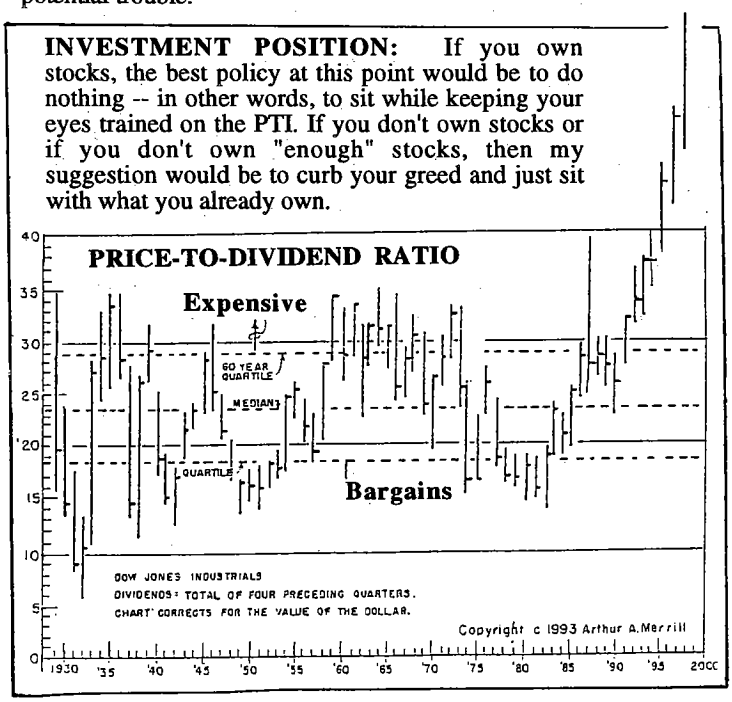
Note: From a percentage standpoint, each successive 1,000 point advance in the Dow gets easier -- until it ends.

Date	Dow Close	% to next 000
Nov. 14, 1972	1001.16	100%
Jan. 8, 1987	2002.25	50%
Apr. 17, 1991	3004.46	33%
Feb. 23, 1995	4003.33	25%
Nov. 21, 1995	5023.55	20%
Oct. 14, 1996	6010.00	17%
Feb. 13, 1997	7022.44	14%
July 16, 1997	8038.88	12%

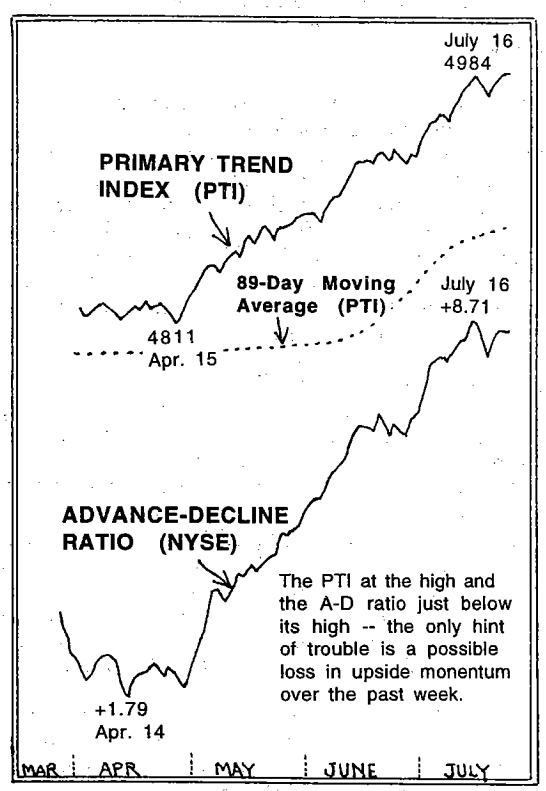
Peter Eliades, who probably does more research with cycles than any man alive, notes that "on June 30 the Dow had been up 69 of the past 100 months. No 100 month period this century had seen more advances. The only prior reading of 69 per 100 occurred in December 1961. Six months later the Dow was down 28%. Also on June 30, the Dow had been up 30 of the past 40 months. No 40 month period this century had seen a greater number of advancing months in the Dow. The record reading of 30 out of 40 had only been reached, prior to the past year, in February 1937 and April through August 1961. June 30, 1997 marked the only time this century that both record extremes were reached the same month, i.e., months up per 100 and months up per 40." **Russell comment:** Based on the foregoing, I guess we can call 1997 an amazing case of **"extreme buying."** Never in stock market history has there been a comparable period of such persistent and urgent buying. It makes for a great bull market. It also paves the way for trouble.

Margin: Margin accounts (buying stocks on credit) between April and June rose 15%, the biggest two-month gain since 1987. Margin debt now stands at a record $113.4 billion. Actually, margin debt tends to rise with a bull market. It's when margin accounts level off or turn down that they're giving off signals of potential trouble.

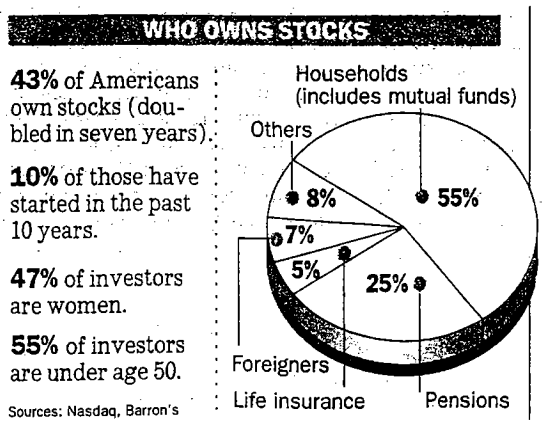
INVESTMENT POSITION: If you own stocks, the best policy at this point would be to do nothing -- in other words, to sit while keeping your eyes trained on the PTI. If you don't own stocks or if you don't own "enough" stocks, then my suggestion would be to curb your greed and just sit with what you already own.



No question about it, this market has broken just about all the records in the book. One of the records that conservative investors watch is how much they pay for Dow dividends. Along those lines, here's a chart (bottom of page 2) that famed chartist, statistician and analyst, Art Merrill, just sent me. It's a chart going back to 1928 showing the price-to-dividend ratio for the Dow. There's an old saying that when the item flies off the chart, something "extreme" is happening. If this chart had been shown to me 20 or even 10 years ago I would have said, "It's impossible, it can't happen." Oh yeah, I forget that "THE MARKET CAN DO ANYTHING." And it has. The bull remains in the box.



NOTES & QUOTES: Who owns stocks? This piece is from the July 17 *LA Times,* and if you can believe the statistics, "everybody" owns stocks or at least half of America does. It is well to remember, however, that the history of Wall Street runs as follows: **(1)** Wall Street owns most of the stocks. **(2)** As a bull market progresses, stocks are distributed to the public. **(3)** Towards the end of a bull market the public owns most of the stocks. **(4)** A bear market takes place, and, as prices decline, the public sells its stocks. **(5)** Toward the end of a bear market, the majority of stocks has once again come back to Wall Street.



* *

Irony: Despite the boom on Wall Street and despite the expanding economy, the wealth-effect evidently isn't being spread equally. Bankruptcy filings in California for the second quarter rose 21.2% (53,361 bankruptcies) to a record.

* *

Change: When I graduated from New York University in 1946, only one of my classmates (out of a class of 105) had chosen to become a broker (he was at Bache) and there was total disinterest in the stock market. As far as investment advisors, you could count them on the fingers of both hands. But times change: there are currently 20,931 registered Chartered Financial Analysts. But in 1997 more than 40,000 people applied to take the Chartered Financial Analysts test.

* *

John Liscio of the always-interesting *Liscio Report* [(973)509-2256] believes that Americans are more worried about future retirement than they are hungry for current goods. That could explain the frenzy to buy stocks while retail sales languish. Thus the following from Liscio: "The retail (ex-auto) price deflator was negative in the second quarter. That's only happened one other time in the post-war period; that was in 1986 when oil prices collapsed to $7 a barrel. Falling prices condition consumers to defer purchases. Add to that the rapid gains in technology and you've a trend going. Why should I upgrade to 56.6 modems when cable hook-ups are right down the road? Why buy a $2,000 Compaq computer today, when you can pick up a newer model for $1,000 tomorrow? And why spend so much anyway, when the safety nets provided by government and employers alike are being snapped away? . . . A recent poll showed 76% of Americans believe they don't save enough for their retirement. Another 33% believe there will be no Social Security when they retire."

* *

The following is from the excellent *Hussman Econometrics* [(800)487-7626]: "Once again the dividend yield (on stocks) has reached the lowest yield in history (1.7%), even correcting for the level of interest rates and inflation . . . Yields are compensation to investors for bearing risk, and the persistent decline in yields represents an historic decline in the risk-aversion of investors. This willingness to bear risk is driving demand for stocks through mutual funds. This is stock which must be supplied by value investors, who sell as yields fall. We have zero doubt that over the next five years as a whole, Treasury bills will beat stocks."

* *

Trouble from Asia: A recent top-level defector from North Korea states that N. Korea (with half its population starving) plans to invade S. Korea. The US is committed to defending S. Korea . . . Aside from N. Korea, China is considered the nation that could foment major world trouble. The Chinese banking system is now literally insolvent, but at the same time China has the capability of outselling any nation in the world (and it is moving in that direction).

China has become an exporting colossus -- it has sold 25% more abroad during the first half of 1997 than in the first half of '96. China is now in the throes of over-investment, and it has built such massive manufacturing capacity that it could easily double in production. The result -- China is flooding the US and the rest of Asia with cheap (and usually well-made) goods. So great is the flood that it is impacting the exporting capabilities of its other Asian neighbors -- Malaysia, Thailand, the Philippines, Indonesia, Singapore and even Japan.

Ironically, China's own economy isn't in rosy shape. Domestic growth is weak and many local factories are idle. What's happened? Billions of dollars coming to China via foreign investments plus an over-supply of cheap credit have left China with over-capacity in autos, TV, textiles, petrochemicals, toys, and a parade of other items. One Chinese analyst estimates that China is currently using only 60% of its potential industrial capacity, a level which would leave most other nations in a state of depression.

One result of the powerful and growing Chinese "export machine" is competitive currency devaluations among Asian nations -- the Thai baht and the Philippine peso were officially devalued two

weeks ago while the Malaysian ringgit and the Indonesian rupiah slumped to multi-month lows. The fallout was even felt in Eastern Europe where the Czech koruna fell to a record low against the dollar. As this is written, Thailand may need a bailout of as much as $20 billion (much as Mexico did a few years ago).

Russell question: What happens when China moves all-out into high technology? And it's only a matter of time before that occurs. The result will be highly deflationary. Remember, the Chinese, unlike the Russians, have always possessed a very strong work ethic, and they have always been excellent businessmen. Years ago I used this concept -- "Have you ever seen a Chinese restaurant or a Chinese laundry go broke?" It just never happens. News: Last week it was announced that for the first time in history the US deficit with China surpassed our deficit with Japan.

Company	Shares	Mkt Val
1. GE	3.28	$228.0
2. Exxon	2.48	157.8
3. Coca-Cola	2.48	174.9
4. Philip Morris	2.43	107.9
5. Wal-Mart	2.27	79.3
6. Intel	1.64	126.4
7. AT&T	1.62	59.3
8. PepsiCo	1.53	60.0
9. P&G*	1.36	101.7
10. J&J	1.33	87.2
11. Pfizer	1.29	81.3
12. Merck	1.21	125.5
13. Microsoft	1.20	157.3
14. DuPont	1.13	73.5
15. Ford	1.12	45.2
16. Fannie Mae	1.06	48.1
17. Hewlett	1.02	58.7

*Pending

* *

Seventeen corporations now have more than a billion shares outstanding. The latest entrant (when their stock soon splits two-for-one) will be Proctor and Gamble. The list is shown to the left, courtesy of *Investor's Business Daily.*

* *

What's Donald Trump really like? He left Ivana, married Marla, then recently left Marla, and the latest rumor is that he might be getting back with Ivana again. Not if Ivana has anything to say about it. Said Ivana (via a Liz Smith interview), "Donald and I are friendly. As for getting back together with Donald, just remember -- he is like good French wine. He doesn't move, and he doesn't travel well. His idea of a great night is to go to bed and eat a fattening hamburger and make a billion dollars before breakfast. That kind of life is 'against my religion,' if you know what I mean. He and I have different ways of looking at life. For instance -- how much money do I need? How many steaks can I eat? How many cars can I drive? How many ball gowns can I wear? I can get what I need for myself. So no, we are not going to get back together. We are going to go on being friends and take care of our children." **Russell comment:** I hear and read this attitude from an increasing number of women. As women gain more power, both psychologically, socially and politically, they're going to take less and less x*%!! (if you know what I mean) from macho boyfriends and husbands and ex-husbands.

* *

Japanese corporations, following in the footsteps of US corporations, are downsizing (remember when Japanese workers and managers were hired for life?). Japanese managers often take being fired as a loss of face, an unbearable embarrassment. Last year 478 Japanese managers committed suicide, a 16% increase over the previous year.

* *

How about that NAFTA? Well, it hasn't been that great, despite Clinton's claims. For instance, the US trade balance with Mexico has gone from a surplus of $1.7 billion in '93, the year before NAFTA went into effect, to a record deficit of $16.2 billion last year. The imbalance with Canada went from $10.8 billion in '93 to $22.8 billion last year. Assertions by the Administration that NAFTA works were labeled irrelevant by critics who contended that US employers were moving factories to Mexico, and even when they're staying put, they use the threat of moving to hold down wages. Complained Teamster President Ron Carey, "While stockholders and corporate executives are making record profits, the real wages of working people in America are at a standstill."

* *

McGraw Hill published a list of "most risk" and "least risk" nations for the 10 largest emerging markets. The "most risk" in order are (1) S. Africa, (2) China, (3) Indonesia, (4) Russia, and (5) Iraq. The "least risk" are (1) Brazil, (2) Poland, (3) Mexico, (4) Turkey, and (5) India.

* *

The Women's College Coalition represents the presidents of 82 mostly female schools. A 1995 survey by this organization showed that 14% of the girls, age 14 to 18, want to be models. No other profession even came close. **Russell comment:** With model publicity even greater today than in '95, I imagine the percentage is now even higher.

* *

Drug War: Said Mathea Falco, president of Drug Strategies, "The drug war is the number one growth industry in federal funding, but we've spent most of the money on a policy that doesn't work." Each law enforcement agency has set up its own drug intelligence center and database, much of which is off-limits to other agencies. Even such agencies as the US Forest Service, the Bureau of Land Management and the National Guard have claimed enforcement roles in the war on drugs. Presidents have reluctantly dragged in the FBI and even the Defense Department. Many law enforcement officials concede that they are losing the war, but they counter that without the war the situation would be even worse. Meanwhile, drugs continue to come into the US by the ton. The latest drug of choice is heroin, which is considered a much "classier" drug than cocaine and crack cocaine. Of course, amphetamine is still a popular number, and many mom-and-pop labs are producing this drug, better known as speed or crank. **Russell opinion:** The drug war is running (via enforcement and new penitentiaries) into the tens of billions of dollars. During the past three years the FBI's budget has risen by 40%, the DEA's by 33%. The war cannot be won by law enforcement. The only hope is to educate the public to the dangers and the utter stupidity of using drugs. Personally, I believe drug use is directly connected with the breakdown of morality and the family in the US and around the world.

But there's money to made in the drug war -- via **prisons.** Since 1985 space has been constructed for one million more prison beds at an estimated cost of $50 billion (the US prison population has now exploded to 1.7 million). In the next five years, an additional 700,000 prison beds will be needed at a cost of $35 billion. Stocks of private prison companies like Wackenhut and Corrections Corp. have taken off.

* *

Scoreboard: America is obsessed with Bill Gates' assets. **Flash:** As of late July Bill Gates' Microsoft stock was worth over $40 billion, which means that Gates was worth more than General Motors . . . Bill Gates hit the top of the *Forbes* list of world's richest billionaires: Gates scored a double over the last year, adding $36 billion to his worth. That puts Gates $9 billion ahead of the Walton Family's $27.6 billion. Of the Americans on the *Forbes* list, Warren Buffett trotted in as #3 with $23 billion and MSFT co-founder Paul Allen was #6 at $14.1 billion. The bull market helped Americans double their positions to six billionaires among the world's top 10. *Forbes* says that it is limiting its list this year to the top 200 richest because the global rise in equities has now produced a whopping 500 billionaires. **Russell comment:** If you haven't made the list yet, don't despair. With global bull markets still chugging along and with currencies worldwide devaluing, it may be only a matter of time before we're all billionaires.

* *

Steve Forbes will be running for President again in '98, and Steve Forbes will be pushing for a total change in the tax system (a 17% flat tax and an end to the IRS). In a major piece in the July 15 *WSJ,* Forbes states that the current tax code is more complicated

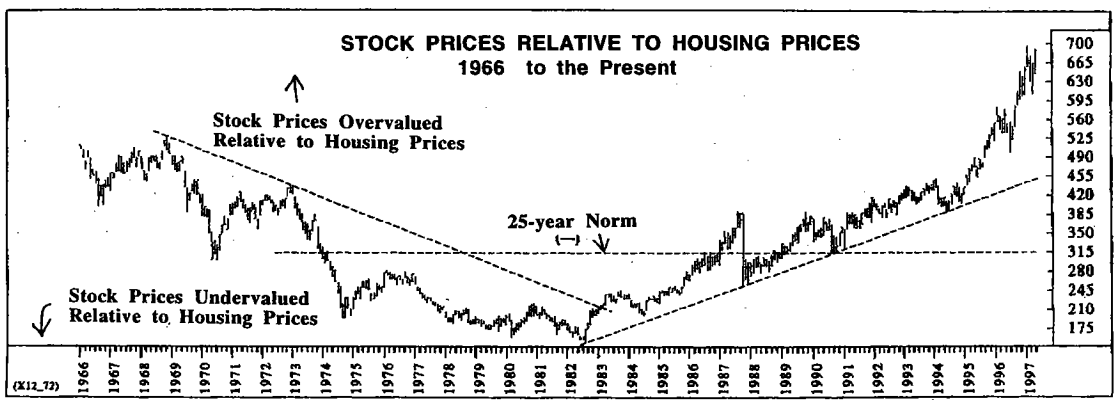
than ever, and it's a bane to business and to individuals. Writes Forbes, "The time has come for another fight over the direction of the country and the direction of the Republican party. Mr. Speaker and Mr. Senate Majority Leader, if you are truly serious about cutting taxes and unleashing opportunity for all Americans, tear down this tax code." **Russell comment:** Forbes has my vote. He's smart, he's honest, and he hates Washington's corruption, avarice and stupidity. And he's got his own money.

* *

Speaking of politics, my old pal Aaron Russo is running for governor of **Nevada.** Aaron's platform -- give the power back to the states and return the nation to Constitutional government. Aaron was ecstatic over the recent Supreme Court decision downing the Brady Bill. Most Americans did not realize the tremendous implications of that Supreme Court decision which in part states, "We hold . . . that Congress cannot compel the States to enact or enforce a federal regulatory program . . . Government may neither issue directives requiring the States to address particular problems nor command the State's officers . . . to administer or enforce a federal regulatory program." **Russell comment:** In other words, whatever powers are not specifically given to the federal government by the Constitution belong to the states. Therefore, the government can no longer simply issue new regulations and demand that the states comply. Aaron Russo is a rare politician, one who knows and believes in the US Constitution and a man who insists that the US Constitution is the law of the land. I'm convinced that Aaron is going to win in Nevada. By the way, the US government owns 87% of the land in Nevada, the highest percentage of any state. Nevada subscribers -- vote for this guy.

* *

Here's a fascinating chart published by *Ned Davis Research* [(800)241-0621]. This is a ratio of the S&P 500 and the median price of a single family home. You can see that the low point for stocks vs. homes occurred around the early '80s, so if you sold your home in 1982 and put all the money into blue-chip stocks you'd be smiling today. On the other hand, with the ratio through the roof at present, the ratio is telling you that homes today are a bargain, or at least a bargain compared with stocks. Of course this is a ratio so it doesn't tell you whether homes are cheap today -- only that they're cheap compared with stocks. Nevertheless, that's good information. It's telling you that if you are debating whether to buy a house or more stocks, the better bet of the two is a house.



Speaking of *Ned Davis Research,* Ned just sent out a "Special Report" entitled, "The Risks As I See Them -- DJIA 4998 in 1998 (Over 80 Reasons Why)." You read this report and your hair stands on end. But Ned says hold it -- few of these will drop into place until Ned's "longer-term investment guide ('Big Mo')" turns down. In other words, when Big Mo finally turns down, hold your hat.

* *

It looks like a "done deal." The next prime minister for China (10-year term), the man who will take over from Li Peng, will be China's leading economic reformer, **Zhu Rongji.** Zhu will almost surely opt for a continuation of China's surge to economic strength.

* *

The latest word on the **Euro,** Europe's projected single currency. It will happen. It will happen before the year 2,000, and the Euro will start out as a weak currency. This is not all negative. It would obviously be better for the Euro to start at the "low," then improve from there, rather than start strong and then weaken. You can be sure of this: Europe (read Germany) wants the Euro to compete with the dollar. It must irk most Europeans to bow to US arrogance, economic leadership and its strong dollar. A strong Euro would mean strength, confidence and pride for a Europe which today is chagrined and embarrassed by its high unemployment and weak economies.

* *

Last week in Bradford, PA, they opened a new museum -- for the **Zippo lighter.** Those little lighters have sold by the millions (one collector has over 1,000 different Zippos). I bought my first Zippo in 1943 during the war (Zippo's entire output in those days went to the armed services). Famed war correspondent Ernie Pyle wrote that a Zippo lighter was "the most coveted thing in the army." Guys in the Air Force liked Zippos because they were the only thing that stayed lit at 12,000 feet. That little blue flame lit many of my cigarettes in the sky (in those days we all smoked, and lung cancer was never suspected).

* *

How Capitalism Works (or you are worth whatever the market will pay): This from a book review by Robert Reich, former Secretary of Labor: "Jerry Seinfeld gets at least $22 million next year. Is he worth it? NBC thinks so. It pulls in more than $1 million a minute from advertisements during the show. The laundry worker down my street earns around $13,500 a year. Is he worth it? The laundry thinks so. Even though the economy is booming, it can get someone to replace him if he demands a penny more."

* *

Salaries: Japanese baseball import Hideki Irabu's $3 million salary for half a season amounts to $200,000 per game (and so far, Irabu's been no barn-burner). Meanwhile, Detroit's amazing running back, Barry Sanders, received the highest NFL contract in history, $34 million for five years (although the NFL is contesting). Will Smith, the young black actor with two successful flicks under his belt, is now asking for $20 million a picture. Listen, even the failures are doing well; the *NY Times* (July 21) ran a feature article ("Growing Trend, Giant Payoffs For Executives Who Fail Big") relating how corporate execs who last for only a few years or often less receive huge parting chunks of greenbacks. Ovitz left Disney and received $90 million, Amerio departed Apple and got $7 million, Greenhill left Smith Barney and received $22 million, Walter resigned under pressure from AT&T and picked up $26 million. **Russell comment:** It doesn't get much better than this.

*

Mags. As veteran readers know, I'm a magazine-aholic. I read maybe 40 magazines. The three biggest disappointments: (1) *New Yorker,* which is mindlessly liberal. Stories are boring as are most of its columns. I do like the covers. When's the last time you even smiled at those bland, cutesy, totally non-funny cartoons? (2) *Esquire.* Macho but strangely prissy, mostly boring, seldom containing anything worth reading, except the very occasional great writing by my old classmate, Jim Salter. (3) *Life,* a once-great picture magazine now a waste of time.

* *

Volkswagen is bringing back a new streamlined version of its famous beetle (which started out in 1938 as Hitler's gift to the German people, literally a Volks Wagen or "people's car"). The New Beetle will be very different than the old one. It will cost about $17,000 plus, it will offer a choice of a 90 horsepower diesel or a 115 HP gas engine with a top speed of 140 MPH. The engines will be water-cooled and mounted up front. The new beetle will make its debut in the US around next January.

SPOUTING OFF: Ah yes, last week, July 22, was my birthday. I was born in 1924, about in the middle of the boom of the 1920s. My family was living well in those days. We resided in midtown Manhattan in a nice middle-class apartment building. A live-in maid in those days was $15 a MONTH, and we had two of them. My father was a civil engineer, and he loved construction. When the market crashed in '29 my father's half-brother (who had always enjoyed a nice income from stocks) jumped out of his hotel window. Why? His income had been cut in half. The Depression ended ALL construction (except for government post offices), and my father got a good job in management. But the Depression wore him down. In 1939 my father had a nervous breakdown. He lost his job, and went into psychoanalysis. From a salary of $18,000 a year (which was very large in those low-tax days) my father found another job which paid him $65 a week. But my dad was a very smart man, a tough man, and a survivor. He got through it all and did steadily better until he died in 1956.

As a boy I saw the suffering of the Great Depression. I remember bread lines on Broadway. I remember Ford showrooms with signs advertising new Fords for $450. I remember long lines of sad-eyed men waiting in the streets outside employment agencies. I remember movie houses with double features plus Bingo, all for 15 cents admission.

Those scenes were seared into my psyche. I guess the years of the Depression and combat in World War II were the defining experiences of my life. Later when I had my own children I never wanted them to see the things I had seen. I never wanted them to go through some of the experiences I had gone through. They say that whatever doesn't kill you makes you stronger. So I guess surviving through 1924 to the present made me pretty strong. I once counted the crises that could have killed me. There were eight of them. When I added them up I realized that the fact that I'm still alive was more than coincidence. That's when I found my belief in a higher power.

I have a son who is 19. He's studying architecture at Berkeley. I thank God that he doesn't have to think about going to war, and I thank God that I don't have to worry about whether he's going to live through the next week or the next month (as my poor parents did during 1943 to 1945). I thank God that I don't have to worry about where my next meal is coming from or whether I can meet my bills or whether my kids are going to see their father coming home with strained eyes, wondering how he's going to deal with tomorrow.

I often think I would have done a lot more with my life if I hadn't experienced the fear and horror of the 1930s and most of the '40s. And I vowed that my kids would grow up without those kinds of fears, and I really think that they have. Of course, there are other problems today that my generation never faced as kids. We didn't worry about drugs, street gangs, youth violence, AIDS, teen-sex and teen-mothers.

The whole picture changed during the '60s, when the youth generation started to take over the world. Rock, dope, sex, the beats, the hippies, a new world and a new youth culture evolved. A lot of that was liberating. Personally, I felt it was a relief after the up-tight years of the late-'40s and '50s. But liberation turned into license, and today we have to deal with a generation that never takes responsibility and is never accountable. It's a generation that always has an excuse for their misdeeds (the latest example is the Democratic politicians and our President claiming that they really aren't responsible for all their illegal fund raising because "everybody does it"). Well, they never promised me a rose garden, and I guess they didn't promise you one either. So the struggle goes on, but believe me, it's a pleasanter struggle today than it was 50 years ago.

Well, you've heard enough of my story. And believe me, I remember the past, but I've learned to live in the present, even though I do a lot of thinking about the future.

NEXT MAILING: Aug. 13, 1997

GOLD: In 1980, seventeen years ago, the Dow would buy a single one-ounce coin. Today, at its current price of 8000, the Dow will buy **24** one-ounce gold coins.

What's happened? In 1980 inflation was rampant and gold was considered the safe place to be, while the stock market was in the doldrums and out of favor. Today we're told that there's no inflation, that gold is a monetary dinosaur, and that the stock market is the key to your financial future.

The stock market and gold are both going to be around for a long time. Things change, economies change, markets change and ratios change. As long as there are free markets, those various ratios will reflect the swings in human events and in human emotions. There's no better example of this phenomenon than the huge swings in the ratio of gold to common stocks.

Back in the '60s gold-philes used to predict rather wistfully that "some day gold and the Dow will sell for the same price." That seemingly "ridiculous" prediction came true in late-1980s. Could a one-to-one ratio ever happen again? Frankly, I think it could.

How could it happen? It would take a MAJOR bear market in stocks accompanied by a collapse in both the dollar and the world's fragile monetary system and then a rush to the only intrinsic money (unless you want to include Rolex watches and diamonds) -- GOLD.

Personally, I believe that the dollar is the Achilles Heel of the US economy. Day after day, week after week, the US takes in merchandise from the rest of the world, while paying for this merchandise with paper dollars. Sooner or later, as the torrent of dollars continues to pile up overseas, this process must come to a halt.

If the US had to finance its deficits with savings (in other words, without the help of foreign nations who take in dollars), we'd now be in recession or worse. But foreigners' willingness to buy and hold trillions of dollars has provided the structure for the current US (and probably the world) boom in stock markets.

At any rate, gold coins should be held in portfolios on a "just in case" basis. The Dow-to-gold ratio will not continue up forever. At some point the ratio will turn down again, possibly getting as low as one-to-one again.

But the case for a gold base is still open to question. The gold stocks, which "may" have hit bottom, are not going to go very far unless gold, the metal, establishes a definitive bull trend. There's no sense in guessing; this daily chart shows the picture. The December gold futures sank to an extreme intra-day low of 318.5 on July 7. A rally took Dec. gold to a closing high of 333.3. From there gold backed off, and, of course, the big question is, "Will gold hold above the July 7 low?" At the bottom of the chart I show the "Moving Average Oscillator" (the difference between two moving averages), and this indicator does provide some hope that the low will hold.